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OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION DIVISION

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Weekly Intelligence Summary No. 87

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Bombing of US ships in Chinese waters or on the adjacent high seas, which has been threatened by the Nationalists, will be regarded by the US as an act of "utmost gravity", according to recent Department of State instructions to the Embassy at Chungking. While sporadic bombing of US and other vessels entering Chinese ports might halt traffic into Shanghai or other ports south of the Yangtze, there is little likelihood that the Nationalists are capable of appreciably interdicting traffic into northern ports, such as Taku (Tientsin) or Tsingtao, by air attacks on merchant shipping. (Item No. 1, A)

Having now gained control of virtually all Chinese coastal ports except Hong Kong, the Chinese Communists are beginning to negotiate for the acquisition of merchant shipping by charter or purchase in order to fulfill their minimum short term requirements for the movement of import and export traffic. (Item No. 2, B)

With one-half of the vessels of the merchant fleet originally owned by China Merchant Steam Navigation Company now under Communist control, a struggle is unfolding to determine the future status of the remaining vessels. While it appears that CMSN officials at Hong Kong are determined that there shall be no defection and are obviously attempting to work out arrangements advantageous to themselves for the operation of the vessels outside Communist-controlled waters, there is a possibility that the ships' crews, disgruntled over unpaid wages, may attempt a coup intended to deliver the vessels into Communist hands. (Item No. 3, B)

Transfer of responsibility for traffic in the Soviet Zone of Germany from SMA to the new East German "Democratic Republic" may have been designed to force the Allies to renegotiate with this new government all existing traffic agreements. This contingency would, in effect, represent de facto recognition. The Western German Government, however, may

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be willing, if requested, to delegate the responsibility for further negotiations to the railway administration of the Western Zone. This action would circumvent any Soviet scheme to jockey the Western Powers into direct contact with East German authorities. (Item No. 4, B)

The sale of tankers by France to the USSR was recently threatened by a French conferee at the Paris meeting on East-West trade controls. While this representative's views do not necessarily reflect official French policy, dissatisfaction was expressed over exports from the US of oil well equipment to the USSR, and France, it was asserted, will no longer refrain from selling tankers to this customer. (Item No. 5, B)

Favorable action on the establishment of a new European Railway Organization was taken at the recent special session of the Inland Transport Rail Sub-Committee of the Economic Commission for Europe held in Geneva. The Sub-Committee has recommended that a single body be formed which will embrace all the spheres of activity now the responsibility of various international non-governmental railway organizations. (Item No. 6, C)

US-Yugoslav discussions have now commenced in Belgrade concerning an exchange of certain civil air rights. Any arrangement concluded between the US and Yugoslavia at this time will be of indeterminate duration and subject to immediate cancellation by either party. (Item No. 7, B)

The Netherlands Government has now been notified that the Government of India wishes to open negotiations for amendment of its bilateral air agreement to include restrictions such as the predetermination of competitors' flight frequencies and division of traffic over routes flown by Air India. The Dutch, aware that the US-Indian air agreement must also be amended if the restrictions desired by India are to be applied without discrimination, and also aware that the UK has successfully dodged the issue for the time being, will probably use every means to delay the Indian discussions. (Item No. 8, B)

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The Italian Government has refused to consider a Czechoslovak request for air rights through Rome to Tirana until a satisfactory settlement has been reached on certain outstanding economic problems such as the financial reimbursement due Italy in compensation for the nationalization of Italian property in Czechoslovakia. (Item No. 9, B)

The smuggling of gold by air is reaching such proportions in Europe, according to a report attributed to the French Ministry of Finance, that it may well surpass in value that moved illegally across international borders by road and rail. One well financed group with headquarters in Switzerland, utilizing light aircraft, has covered its activities by means of false cargo manifests and forged diplomatic passports. (Item No. 10, B)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. Bombing of US ships in Chinese waters or on the adjacent high seas, which has been threatened by the Nationalists, will be regarded by the US as an act of "utmost gravity", according to recent Department of State instructions to the Embassy at Chungking. The Embassy is to inform the Foreign Minister of this view and to state that the US trusts the reported intentions of the Chinese Air Force in this respect represent the attitude of irresponsible elements and not the intended policy of the Chinese Government.

25X1X6 In a conversation with [REDACTED] 25X1X6

the US Air Attaché at Taipei has been informed that Chinese airplanes will attack any vessel along the China coast or in the Formosan Straits. When the US representative pointed out that the areas indicated were international waters and that Chinese sovereignty extends only three miles off shore, [REDACTED] 25X1X6 modified his statement by asserting that such vessels would be tracked by air and bombed if they entered territorial waters. He also indicated that British vessels were the most frequent violators of the port closure order, presumably reflecting Nationalist displeasure over the recent action of the British Navy in escorting British-flag merchant ships entering Shanghai in defiance of Chinese naval craft (see D/Tr Weekly No. 86). While sporadic bombing of US and other vessels entering Chinese ports might halt traffic into Shanghai or other ports south of the Yangtze, there is little likelihood that the Nationalists are capable of appreciably interdicting traffic into northern ports, such as Taku (Tientsin) or Tsingtao, by air attacks on merchant shipping.

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2. Having now gained control of virtually all Chinese coastal ports except Hong Kong, the Chinese Communists are beginning to negotiate for the acquisition of merchant shipping by charter or purchase in order to fulfill their minimum short term requirements for the movement of import and export traffic. The Communists desire to charter ten vessels, for example, to engage in the North China-Shanghai trade in coal and other bulk cargoes. Though they are chiefly interested in large vessels, they will accept smaller units, but are not interested in old tonnage.

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The Shanghai representative of a US-owned shipping agency asserts that his company has concluded final arrangements through an intermediary for chartering a 10,700 DWT Honduran-flag vessel to the Chinese Communists. The vessel will reportedly operate along the China coast and possibly to other areas. The same agent has also offered Panamanian-flag vessels to the Communists and the Shanghai representative of the US Lines has been reportedly discussing the sale or charter of bottoms belonging to his company.

Chinese Communist requirements for additional shipping are probably urgent, in spite of their capture of some former Nationalist vessels. Their efforts to build up a merchant marine, however, will be severely hampered by several factors. Although charter payments in advance for two months have been deposited in a New York bank for the Honduran vessel, the Communist hard currency funds are believed to be limited, and outright purchase of substantial tonnage is therefore unlikely. The purchase of US-flag tonnage, moreover, could not be effected without US Government approval. (Confidential)

3. With one-half of the vessels of the merchant fleet originally owned by China Merchant Steam Navigation Company now under Communist control, a struggle is unfolding to determine the future status of the remaining vessels (see D/Tr Weekly No. 86). The main office of the company, the largest operator of Chinese-flag shipping, is now at Taipei. The company also maintains an office in Hong Kong, however, where nine of its vessels were located on 28 October. It appears that the position of the Hong Kong office, which has no funds to pay salaries, has become untenable and desperate efforts have been instituted by the Hong Kong officials to prevent additional vessels from falling under Communist domination.

The Chairman of CMSN, after resigning, left Hong Kong for Tokyo on 21 October. It is believed that he intended to discuss a plan with SCAP whereby the CMSN vessels would be leased for use by Japanese shipping interests. Unconfirmed reports indicate, however, that any such plan might be hampered by the British attitude. After rejecting a request for registration of these vessels under the British flag at Hong Kong, British authorities allegedly detained the vessels by refusing to issue exit permits, with the ulterior motive of using this shipping in their dealings with the Chinese Communists.

While it appears that CMSN officials at Hong Kong are determined that there shall be no defection and are obviously attempting to work out arrangements advantageous to themselves for the operation of the

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vessels outside Communist-controlled waters, there is a possibility that the ships' crews, disgruntled over unpaid wages, may attempt a coup intended to deliver the vessels into Communist hands. (Confidential)

4. Transfer of responsibility for traffic in the Soviet Zone of Germany from SMA to the new Eastern German "Democratic Republic" may have been designed to force the Allies to renegotiate with this new government all existing traffic agreements. This contingency would, in effect, represent de facto recognition. The changed situation was revealed in a newspaper statement which asserted that General Kwashnin, transport chief of SMA, has pointed out the responsibility of the Republic's Traffic Minister to conclude henceforth all international agreements necessary for "safeguarding traffic relations with foreign countries." The protection of rail installations in the West Sector of Berlin, moreover, which has been hitherto assured by railway police under SMA supervision, may also be turned over to the Republic. This possibly tactical move on the part of the USSR may now reopen the whole question of the Allies' corridor to Berlin, and the subsidiary problem of operation by East German personnel of Allied military trains during transit through the Soviet Zone to Berlin. The Western German Government, however, may be willing, if requested, to delegate the responsibility for further negotiations to the railway administration of the Western Zone. This action would circumvent any Soviet scheme to jockey the Western Powers into direct contact with East German authorities. (Secret)
5. The sale of tankers by France to the USSR was recently threatened by a French conferee at the Paris meeting on East-West trade controls. While this representative's views do not necessarily reflect official French policy, dissatisfaction was expressed over exports from the US of oil well equipment to the USSR, and France, it was asserted, will no longer refrain from selling tankers to this customer.

Actually, the past reluctance of the French to do business with the USSR has reflected the general Western European disinclination to accept Soviet economic and political terms fully as much as a desire to cooperate with the US objective of blocking the acquisition of tankers by the USSR and Satellite countries.

After several years of practically no unemployment in French shipyards, many yards are now faced with the prospect of curtailing activities by 1952-53, when present contracts will be completed, and some shipyards may become entirely idle. The realization of this prospect may be

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making the French Government more receptive to Soviet proposals regarding ship construction. Unemployment in the shipyards, furthermore, would provide the French Communists a fertile field for attacks against the French Government. Italian and Trieste Communists have demonstrated in their areas the propaganda opportunities in similar situations by ascribing shipyard unemployment to the unwillingness of US imperialists to permit business with the Soviet Union. (Secret)

6. Favorable action on the establishment of a new European Railway Organization was taken at the recent special session of the Inland Transport Rail Sub-Committee of the Economic Commission for Europe (ECE) held in Geneva. While the Sub-Committee decided that it is not advisable to attempt any integration of international governmental railway bodies at the present time, they resolved to undertake an examination of the problem at a later date. The international governmental bodies which specialize in railway problems are:

Inland Transport Committee of the ECE through its Sub-Committee on Rail Transport;

Central Office for International Transport by Rail at Berne; and

International Conference for Promoting Technical Uniformity on Railways (Unité Technique-UT).

Relative to the international non-governmental railway organizations:

International Union of Railways (UIC);

International Railway Wagon Union (RIV);

International Carriage and Van Union (RIC);

European Passenger Timetable Conference;

International Goods Train Timetable Conference; and

International Rail Transport Committee (CIT);

the Sub-Committee recommended the formation of a single body which would embrace all the spheres of activity of the separate entities.

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The Sub-Committee requested the International Union of Railways (UIC) to proceed, in consultation with the other non-governmental international railway bodies, in the preparation of draft statutes of an integrated organization; to submit this draft to a special general assembly, to which representatives of all railway administrations participating in any one of the non-governmental international railway bodies shall be invited; and to transmit the resulting final draft to the Executive Secretary of the ECE.

In view of past Czech opposition to the new organization, there is some possibility that establishment of a new body of this sort might jeopardize the continued participation of the various Satellite railway administrations in the existing European railway conventions. Formation of a new organization, moreover, might give the USSR an opportunity to reopen pressure on the Eastern European countries to withdraw and limit their international collaboration in railway transportation matters exclusively to the new Warsaw Transport Convention.

On the other hand, the fact that this non-government organization is to operate principally at the technical level will prevent its assuming the strong political power which might be expected if it functioned at the governmental level. This factor may forestall the bitter Soviet opposition that would otherwise surely result
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CIVIL AVIATION

7. US-Yugoslav discussions have now commenced in Belgrade concerning an exchange of certain civil air rights. The European press, which prematurely announced the pending negotiations, incorrectly described them as preliminary to a reciprocal agreement similar to those concluded by the US with some 40 other countries. These provide an exchange between the two signatories of landing rights in their respective territories. No such agreement is contemplated by the US. Yugoslavia, moreover, at present seeks only transit rights through both US zones of occupation and traffic rights at a designated airport in Germany on a route to Paris and London. The US has asked for transit and traffic rights at Belgrade on a route to Athens. Any arrangement concluded between the US and Yugoslavia at this time will be of indeterminate duration and subject to immediate cancellation by either party. (Secret)

8. The Government of India is continuing to seek amendment of existing bilateral air agreements to include restrictions such as the predetermination of competitors' flight frequencies and division of traffic over routes flown by Air India (see D/Tr Weekly No. 69).

The Netherlands Government has now been notified that the GOI wishes to open negotiations for this purpose. The Dutch, aware that the US-Indian air agreement must also be amended if the restrictions desired by India are to be applied without discrimination, and also aware that the UK has successfully dodged the issue for the time being, will probably use every means to delay the Indian discussions. The UK and the Netherlands both recognize that the basic principles of their civil aviation policy are at stake and that should either country compromise them to any extent, many other countries would consider themselves no longer bound by such principles. In this event, a wave of restrictionism might well put an end to the present competitive pattern in international civil aviation in favor of one which would be closely controlled and regulated by local governments for nationalistic reasons.

Although the GOI has indicated to the UK that it will soon open discussions for amendment of its air agreement with the US, no move has yet been made to do so. It is probable, moreover, that the GOI will be reluctant to approach the US and invite almost certain failure until it has first exploited every possible political and economic weapon in persuading other countries, whose airlines traverse India, to come to terms. (Confidential)

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9. The Italian Government has refused to consider a Czechoslovak request for air rights through Rome to Tirana until a satisfactory settlement has been reached on certain outstanding economic problems such as the financial reimbursement due Italy in compensation for the nationalization of Italian property in Czechoslovakia. The objective of Czechoslovakia is to obtain access to Albania by a route which is not dependent upon Yugoslav sanction. While this counter demand on the part of Italy may temporarily serve to postpone further discussion, it will no longer serve if the two countries arrange a trade agreement similar to that recently concluded by the UK with Czechoslovakia. This agreement is reported to have satisfied British claims for compensation with regard to property nationalized by Czechoslovakia. Italy, which has promised the US and UK to refuse onward flight from Rome to Czechoslovak airlines, may still insist that an economic necessity be demonstrated for an air connection between Rome and Tirana when a route to Tirana from Prague through Belgrade is not only available but more direct. (Confidential)

10. The smuggling of gold by air is reaching such proportions in Europe, according to a report attributed to the French Ministry of Finance, that it may well surpass in value that moved illegally across international borders by road and rail. One well financed group with headquarters in Switzerland, utilizing light aircraft, has covered its activities by means of false cargo manifests and forged diplomatic passports.

The task of apprehending these operators is not simple because smugglers frequently utilize abandoned wartime airfields and on occasion drop their cargoes by parachute. European governments, moreover, have been slow in recognizing the serious implications of relatively uncontrolled personal and non-scheduled aircraft movements. (Such movements, for example, can provide a ready means for evasion of ECA-sponsored controls over exports from Western to Eastern European countries; see D/Tr Weekly No. 77.) The French, however, have now organized special mobile detachments of customs officials for the purpose of intercepting such activities. A concerted effort, meanwhile, is being made by the customs authorities of the UK, France, Belgium, the Netherlands, Switzerland and Spain, to keep international airports under surveillance.

These measures are apparently meeting with some success, as several important arrests are reported to have been made. A recent case involves one Frederic Ebel, a Frenchman of Polish extraction, long known to have been active in clandestine activities, who is now held in Paris on charges of gold smuggling. Ebel has maintained a residence in Switzerland as a Swiss representative of Air Span Ltd., a British non-

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scheduled carrier. During December 1948, he assisted in diverting through subterfuge two DC-3 transport aircraft [REDACTED] in violation of 25X6A the UN truce. Ebel's name has figured in other international dealings in aircraft such as that of the C-46 which was grounded by the Swiss in January 1949, carrying a false Mexican registration number and forged papers. It may not be mere coincidence that Ebel has also maintained a residence at Lyon, France, near which city, according to a French press report, a cargo of gold was recently dropped by parachute.
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